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REFINING AND MARKETING INDUSTRY

Gross refining margins to remain muted in FY2026 owing to weakening demand amid a supply overhang

APRIL 2025

Highlights

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Singapore gross refining margins (GRMs) are expected to remain under pressure owing to sluggish demand amid a supply overhang. ICRA estimates Singapore GRMs to be subdued and in the range of $3.5-4.5/bbl for FY2026 as against the past 10-year average of $5.6/bbl.

- The global refining industry is facing challenges from slowing oil demand growth. As per International Energy Agency (IEA), global liquids demand increased by 0.84 million barrels per day (mbd) in 2024 and is expected to increase by 1.1 mbd in 2025. This rate is much below the pre-Covid historical average annual growth rate of 1.25 mbd over 2001-2019. However, even as demand slows down about 2.8 mbd net refining capacity would be added over CY2024-CY2026.
- China's oil demand accounted for ~40% of global demand growth over 2001-19 and accordingly China was a key engine of growth for this sector. However, China's oil demand growth has been slowing owing to almost half the passenger vehicles sold being new energy vehicles, massive deployment of renewable energy capacity, increasing sales of LNG trucks and the real estate slump.
- An increasing supply of natural gas liquids and bio-fuels is putting pressure on refineries as these do not need to be processed in refineries but replace refinery products. As demand growth for refined products slows, global utilisation levels are expected to drop, leading to rationalisation of refining capacity and impacting profitability. As against past 10-year historical average of 80.3%, global capacity utilisation is expected to drop to ~79% by CY2026 even after significant capacity rationalisation (800,000 bpd) in CY2025.
- The Singapore GRMs declined to $3.8/bbl in YTD FY2025 (till February 28,2025) from $6.6 in FY2024 and are expected to remain under pressure owing to weak demand and increasing supplies. ICRA estimates Singapore GRMs to remain in the range of $3.5-4.5/bbl in FY2026 against the past 10-year average of $5.6/bbl. Additionally, any significant reduction in Russian crude discounts or quantities would also impact the GRMs of Indian refiners. Accordingly, the GRMs of the domestic refining industry are expected to remain muted in FY2026.

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Thank You!